

The Cost of Bad Leadership: How to Choose the Right Leaders for Your Business

6 min read



Key Takeaways

- Poor leadership will ultimately lead to low employee morale. This not only slows productivity but also increases your rate of employee turnover.
- Choose leaders with the know-how or ability to learn how to read financial management reports and understand what the numbers, key performance indicators, and trends indicate.
- Choosing business leaders who are goal-oriented is essential to rallying your entire organization around a common vision and setting off on tackling each benchmark on your way to achieving your ultimate goal.

Employees are often selected for promotion into leadership positions based on their track record of success in their current position. However, an employee's excellence in one position doesn't *necessarily* mean they'll make an excellent leader.

For example, a person's ability to consistently achieve top marks in a sales position doesn't always mean that the same person possesses an innate ability to lead a sales team. While they could use their sales savvy to improve department protocol, they might not possess the qualities that make a truly capable leader. As a result, you could wind up with a highly discouraged, unmotivated, unhappy sales team.

In business, **you'll quickly find that past performance doesn't always indicate leadership quality.** If you don't know the qualities to look out for, you might promote a high-performing employee into a leadership position that will wind up costing your company big-time.

Why Poor Leadership Is So Expensive

Breakdown in Company Culture

Whether it's an under-qualified vice president, a department supervisor, or a project leader, poor leadership causes a breakdown in company culture that can spread like a contagion of dissatisfaction throughout your company.

When a person in a leadership position doesn't have the right qualities to lead, fails to communicate effectively to rally their subordinates around strategic goals, fails to recognize hard work, or simply has a bad attitude, **you'll find that they have a toxic effect on your bottom line.**

"Leadership is an action, not a position"- Donald McGannon

Production Lags and Missed Opportunities

Under poor leadership, different departments tend to work in different directions or operate in continuous disagreement. This could cause missed opportunities to work well together, lags in productivity due to unclear direction, and failure to achieve goals with little collaboration and not getting valuable feedback for continuous improvement.

This also **trickles down to the service provided to clients** because employees won't have the leadership support and clear direction to help them live up to your clients' expectations, which will have a detrimental effect on future revenue.

General and High-Level Employee Turnover

The breakdown in company culture will ultimately lead to low employee morale. **This not only slows productivity but also increases your rate of employee turnover.**

The [direct and indirect costs of turnover](#) are exceptionally high. When replacing a low-skill, low-knowledge, low-level employee, it can cost you about 50% of the employee's salary. When replacing a higher-level employee like a supervisor, you can expect to spend up to 150% of the person's annual salary to replace them.

Direct costs of replacing employees include:

- Automatically paid-out PTO
- Staffing agency or recruiter fee
- Advertising expenses associated with listing the position
- Risk of increasing salary demands with external hires
- Cost of diverting your attention and that of other high-level employees to the hiring process
- Overtime paid to remaining employees who are picking up the slack

Indirect costs of replacing employees include:

- Reduced income and profits over the time it takes to fill the position and for the new employee to get up to speed (typically 3 months!)
- Losses associated with redirecting top employees' attention to training new recruits
- Costs (monetary, time, effort, and attention) expended on salvaging your company culture and employee morale after the loss of a co-worker or after the detrimental effects of having the wrong person in a leadership position

10 Profitable Qualities to Look for in Your Leaders

At every level in business, there are several [leadership styles](#) (*visionary, laid-back, democratic, top-down, bottom-up, etc.*). Each of these styles has its benefits and drawbacks. As a result, the most important factor in leadership is choosing people who have positive qualities who will be able to draw out the best of your company's culture while inspiring success.

When choosing your leadership team or considering how you can improve your own leadership style, look for the following leadership qualities:

1. Fits the Company Culture

A good leader must be able to fit in with the company culture and help establish or improve the culture. Businesses with a [strong company culture](#) attract the best employees, keep them around longer, and foster a positive work environment where employees feel more like friends than co-workers and they care about the success of the business.

With a great company culture that pulls employees together rather than pushing them apart, your business will naturally become more successful.

If you appoint the wrong people to leadership positions (people who tend to spread negativity), your business will most likely suffer a breakdown in culture, morale, and

motivation that starts at the top. Instead, look for individuals who spread positivity, drive, and excel at cultivating working relationships.

2. Growth Mindset

While it's important to recognize past success and understand past failure, it's more important for a business leader to be future-focused and always operating with a [growth mindset](#). So, rather than dwelling on the past, they should be asking questions like "How can we replicate or improve our past success?" and "How can we avoid repeating past mistakes?" **In other words, business leaders need to constantly consider how they can do better.**

With a growth mindset, business leaders seek out new challenges, treating every experience – failure or success – as a learning experience that can be used to better direct your business toward its goals.

"Successful leaders see the opportunities in every difficulty rather than the difficulty in every opportunity" ~ Reed Markham

3. Has Business Acumen

Business (understanding of accounting, finance, marketing, and operations) + Acumen (ability to perceive, discern, and discriminate) = Business Acumen (ability to lead a business to success).

[Business acumen](#) is the *je ne sais quoi* of successful business leaders. It's a *can't-lead-without* combination of skills, business *know-how*, and a dash of good instinct. Business acumen equips leaders with the business know-how to avoid pitfalls, overcome challenges, and make better decisions for your company. As a result, you'll avoid the problems that usually put companies out of business (cash flow problems, insufficient management, marketing mistakes, and operational issues).

4. Meets Conflict Head-On

Conflict avoidance in a leader is simply unacceptable.

Whether a problem is happening within personnel or involves a costly client that needs firing, ignoring it will only make it worse. Good leaders face conflicts and resolve problems as soon as they arise. **Good leaders encourage open, honest communication to resolve issues before they get too deep.**

5. Flexible and Open-Minded

Yes, many business leaders achieve their positions because they've been successful in the past. A good leader, however, recognizes when it's time to change their model or adapt their leadership strategy.

A *one-size-fits-all* or a *my-way-or-the-highway* approach to leadership is not sustainable. It's important your leadership team adopts a position of flexibility and open-mindedness so that they'll recognize when they encounter opportunities to change for the better.

In the same spirit, business leaders should intentionally limit their tendency toward operating with a fixed mindset (i.e. thinking that a person is too old, too young, over-educated, under-educated, too agreeable, or too disagreeable). Encourage your leadership team to tap into your workforce's potential by offering employees plenty of opportunities for training, education, and professional development- instead of holding your business back by operating with a fixed mindset,

"A good leader is a person who takes a little more than his share of the blame and a little less than his share of the credit."~ John Maxwell

6. Does the Right Thing

Clearly, an ethical mindset is essential to positive leadership. You need to choose people who always strive to do the right thing – not just what's currently best for the bottom line – **because you can't put a price on integrity.**

When a leader lacks ethics, they'll soon lose the respect of everyone working around and beneath them and wind up doing more harm than good.

7. Goal-Oriented

If your leadership team doesn't know why they're in business, why they do what they do, or why you've asked them to operate in a certain way, then you haven't taken the time to establish long-term and short-term goals for your business.

It is crucial your leaders are goal-oriented, and understands your company's objective. Ultimately, they are responsible for communicating and overseeing this on a day-to-day basis with the rest of the staff. If goals are not clearly defined, your business will lack direction and unity, and performance will lag.

This starts with you. Of course, your goal is to be successful. But what exactly does "success" mean to you? Do you define success as staying open for another six months? Is success increasing your nonprofit's beneficiary list by 50% in the next year? Will you be successful when you've risen to the top of the industry in your region? Or is success taking your company global?

The point we're trying to make here is that your leadership team won't know how to work toward or even recognize success until you've [established goals](#). So, choosing business leaders who are goal-oriented is essential to rallying your entire organization around a common vision and setting off on tackling each benchmark on your way to achieving your ultimate goal.

“Too many companies believe people are interchangeable. Truly gifted people never are. They have unique talents. Such people cannot be forced into roles they are not suited for, nor should they be. Effective leaders allow great people to do the work they were born to do.” ~ Warren Bennis

8. Communicates Effectively

Everyone business owner knows the importance of an effective communication strategy. If your leadership team is not in sync with your internal communication approach, it will trickle down to junior staff. **As a result, your business's goals & objectives will not be relayed and the impact will be on your bottom line.**

Clear communication from leadership helps all employees feel more secure and comfortable. As a result, they are more motivated to achieve your company's goals.

Successful leaders can communicate clearly with everyone working at all levels inside and out of your company. They should also be able to write well. Without basic communication skills, your leaders won't be able to effectively communicate business goals or strategies, nor will they be able to rally their teams around goal-oriented tasks.

9. Data-Driven

All the talk about goals won't amount to anything if you don't choose leaders who rely on your business numbers when it comes to making decisions.

While good instincts are invaluable, they can only take a business so far because businesses, after all, are nothing without their numbers.

When business leaders rely on instinct alone, they find themselves making reactionary decisions rather than strategic decisions. If you choose people to run your business who will, instead, rely on making data-driven decisions, you'll have a business that runs on strategic leadership rather than reflexes.

Choose leaders with the know-how or ability to learn how to read financial management reports and understand what the numbers, key performance indicators, and trends indicate.

10. In Touch with the Day to Day

Although leaders find themselves at the top of the business hierarchy, **good business leaders know that no function, employee, or task is beneath them.**

Successful business leaders should make a concerted effort to stay in touch with every aspect of their company's operations, how each level of employees feels about their jobs, and they should communicate and interact with everyone regularly – even if it requires penciling in a 20-minute walkabout every week.

Measuring the Success of Your Company's Leadership with a Human Capital Strategy

Implementing an effective human capital strategy will help you avoid the pitfalls of poor leadership and the costs of high employee turnover, lagging productivity, and missed opportunities.

Learning how to measure, track, and manipulate your human capital strategy using management accounting will help you evaluate the effectiveness of the leaders you have in place and those who are new to the job. You'll also be able to keep a bead on your company culture and employee morale while making small adjustments to continuously improve the health and happiness of your company.